GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:2123
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Regulatory Framework for NBFCs
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Will the Minister of FINANCE be pleased to state:

a) whether the Reserve Bank of India(RBI) has recently revised regulatory framework for Non-Banking Financial Companies(NBFCs);

b) if so, the details thereof;

c) whether the RBI has recently released financial performance of NBFC and if so, the details and the highlights thereof; and

d) whether these companies as a whole saw their new profits fall in the first quarter of this financial year and if so, the reasons therefor?

Answer

The Minister of State in the Ministry of Finance

a) to (b) : Yes. The broad details of the Revised Regulatory Framework for the NBFCs are as under:-
1. Increasing the minimum Net Owned Fund(NOF) of existing NBFCs (those registered prior to April 1999) to Rs. 2 crore. NBFCs with NOF less than Rs. 2 crore will have to increase it by March 2017. NBFCs failing to achieve the prescribed ceiling within the stipulated time period shall not be eligible to hold the Certificate of Regulation (CoR) as NBFCs.
2. In order to harmonise the deposit acceptance regulations across all deposit taking NBFCs (NBFCs-D) and move over to a regimen of only credit rated NBFCs-D accessing public deposits, existing unrated Asset Finance Companies (AFCs), which were permitted to accept deposits, shall have to get themselves rated by March 31, 2016. Further, the limit for acceptance of deposits has been reduced for rated AFCs from 4 times earlier to 1.5 times of NOF.
3. The threshold for defining systemic significance for Non-deposited accepting NBFCs (NBFCs-ND) has been revised to Rs. 500 crore (earlier Rs. 100 crore). NBFCs-ND shall hence forth categorized into two broad categories viz. NBFCs-ND (those with assets of less than Rs. 500 crore) and Systemically Important Non-deposit accepting NBFCs (NBFCs-ND-SI) (those with assets of Rs. 500 crore and above) and regulations applied accordingly.

4. Assets of multiple NBFCs in a group shall be aggregated to determine if such consolidation falls within the asset sizes of the two categories mentioned above. Regulations as applicable to the two categories will be applicable to each of the NBFCs-ND within the group.
5. NBFCs with assets of less than Rs. 500 crore shall not be subjected to prudential norms/directions if they are not accessing public funds, and those not having customer interface will not be subjected to conduct of business regulations.
6. NBFCs-ND, with asset size of less than Rs. 500 crore, are exempted from the requirement of maintaining CRAR and complying with Credit Concentration Norms. A leverage ratio of 7 has been introduced for them.
7. Tighter prudential norms prescribed for NBFCs-ND-SI (asset of Rs. 500 crore and above) and all NBFCs-D viz., minimum Tier 1 Capital requirement raised from 7.5% to 10% in a phased manner by end of March 2017, the asset classification norms brought in line with that of banks, in a phased manner by the end of March 2018, from 180 days to 90 days and provision for standard assets increased to 0.40% in a phased manner by the end of March 2018.
8. Additional Corporate Governance Standards and Disclosure norms for NBFCs have been issued for NBFCs-D and NBFCs-ND. Reporting regime rationalized with an annual return prescribe for NBFCs of assets size less than Rs. 500 crore.
(c) : Yes. The highlights of the RBI's recently released financial performance of NBFC sector, as published in Financial Stability Report, June,2015 are as under

(Rs. in Billion)

Financial Performance Indicator	2014	2015	Percentage Variation
1.Total Income	1449	1676	15.7
2.Total Expenditure	1077	1238	14.9
3. Net Profit	265	316	19.0
Financial Ratios(%)			
1. Net Profit to Total Income	18.31	18.83	
2. Return on Assets	2.13	2.17	

(d) : Based on online returns submitted by the NBFCs, it was found that the Net Profit of NBFC sector during the first quarter of the current financial year(i.e., June 2015) declined by 5.0 per cent. The Net Profit of NBFC sector declined largely on account of pressure on interest margins and increasing Non Performing Assets(NPAs).